

Morning Report

Thursday, 15 October 2020

Equities (close & % change)			Sydney Futures Exchange (close & change)					Interest rates (close & change)		
S&P/ASX 200	6,179.2	-0.3%	Last		Overnight Chg			Australia		
US Dow Jones	28,514.0	-0.6%	10 yr bond	99.16	0.00			90 day BBSW	0.08	0.00
Japan Nikkei	23,626.7	0.1%	3 yr bond	99.82	0.00			2 year bond	0.15	0.00
China Shanghai	3,501.4	-0.6%	3 mth bill rate	99.92	-0.01			3 year bond	0.14	0.00
German DAX	13,028.1	0.1%	SPI 200	6,146.0	-15			3 year swap	0.13	0.00
UK FTSE100	5,935.1	-0.6%	FX Last 24 hrs	Open	High	Low	Current	10 year bond	0.84	-0.01
Commodities (close & change)*			TWI	60.9	-	-	60.8	United States		
CRB Index	151.5	1.1	AUD/USD	0.7160	0.7191	0.7153	0.7162	3-month T Bill	0.10	0.00
Gold	1,903.8	12.4	AUD/JPY	75.52	75.72	75.20	75.30	2 year bond	0.14	0.00
Copper	6,705.3	-63.3	AUD/GBP	1.5535	0.5566	0.5495	0.5504	10 year bond	0.73	0.00
Oil (WTI)	41.1	0.9	AUD/NZD	1.0768	1.0789	1.0748	1.0757	Other (10 year yields)		
Coal (thermal)	58.4	0.8	AUD/EUR	0.6097	0.6121	0.6090	0.6096	Germany	-0.58	-0.02
Coal (coking)	120.8	-0.6	AUD/CNH	4.8263	4.8335	4.8029	4.8086	Japan	0.03	0.00
Iron Ore	115.1	-1.8	USD Index	93.5	93.7	93.2	93.4	UK	0.22	-0.02

Data as at 8:00am. Change from previous trading day (excluding the SFE which is the change during the night session). Source: Bloomberg.

Main Themes: Risk aversion remain elevated overnight, as investors continued to see hopes of further US stimulus before the US election fade.

Share Markets: US share markets dropped again overnight after a mixed bag of earnings reports and as hopes for pre-election stimulus faded. The S&P 500 index declined 23 points (or -0.7%) while the Dow Jones fell 166 points (or -0.6%).

Interest Rates: US government bond yields were little changed, keeping the 10-year bond yield hovering around 0.72%.

Foreign Exchange: The US dollar dropped against most of the G10 currencies. The AUD/USD pair was volatile in overnight trading within a narrow trading range of 0.7153-0.7191. The AUD is unlikely to breach its recent trading range in the near term.

COVID-19: NSW reported 11 new cases of locally transmitted cases yesterday. Victoria reported 7 new cases, as regional Victoria braces for a possible cluster.

Commodities: Oil and gold rose overnight.

Australia: The Westpac - Melbourne Institute index of consumer sentiment staged a remarkable comeback following the October Federal Budget. The index rose a very solid 11.9% in October to 105.0. This is the highest level since July 2018.

It appears the Budget went down well. The survey

contains a question relating to the Budget and asks respondents if the Budget will improve their finances. For the first time since the question was introduced, in 2010, the response was a net positive.

An encouraging outcome was that all states saw a lift in consumer confidence. Indeed, all states now have a reading at or above 100 - the first time since February 2019. Not surprisingly, Western Australia was the first state to crawl back above 100, and that was only in September.

The 'time to buy a house' index rose 10.6% to its highest level since September 2019. There were increases in all states in this sub-index. In Western Australia, this index sits at 138.0, in South Australia at 131.1 and in NSW at 120.4. Queensland (118.6) and Victoria (118.0) are also in positive territory. These are solid results for the housing market and reflect a similar trend in other nations.

Further, responsible, opening of the economy will lift confidence, as will the actual receipt of the income tax cut. It remains to be seen if the extra cash will be spent or saved but judging by the lift in consumer sentiment, it appears some lift in consumer spending is on the way.

China: Credit growth in China was robust in September, reflecting stimulus and an economic rebound. M2 money supply growth rose to 10.9% in

the year to September, up from 10.4% in the year to August. It was the fastest annual pace in three months.

Europe: Industrial production grew by 0.7% in August in the euro area, after solid growth of 5.0% in July. The annual rate remained in contraction, however. On a year ago, industrial production fell 7.2%, which represents a slight deterioration from the fall of 7.1% registered in the previous month.

United Kingdom: The UK government signalled it will not abandon EU trade talks just yet and will continue efforts to reach a deal beyond Prime Minister Boris Johnson's October 15 deadline. Draft conclusions suggest EU leaders meeting in the coming days in Brussels will say progress on key issues still is not sufficient.

United States: The producer price index (PPI) for final demand rose 0.4% in September after advancing 0.3% in August. A rise in wholesale prices for services drove the overall increase in the month. In the year to September, the PPI rebounded 0.4%, which is the first annual increase since March.

Excluding the volatile food, energy and trade services components, producer prices also rose 0.4% in the month and lifted 0.7% on a year ago. The PPI data reveals that fears of deflation at the height of pandemic have been misplaced.

US Treasury Secretary Steve Mnuchin does not expect to get a stimulus agreement completed before the November 3 election, saying it would be "difficult." Still, the House speaker and Treasury secretary will talk again this week.

Federal Reserve Vice Chairman, Richard Clarida, overnight predicted economic output will take a year or more to return to its pre-pandemic level, and "even longer" for employment. Clarida added that additional support from monetary and probably fiscal policy will be needed.

Richmond Federal Reserve President, Thomas Barkin, warned that a rebound in US infections to about 50,000 a day has added uncertainty to the US economic outlook and may discourage businesses from hiring or investing.

Meanwhile, the Federal Reserve member Kaplan said he was concerned about the risks of keeping rates too low, while noting that an overshoot of the Federal Reserve's inflation target means around 2.25%.

Today's key data and events:

AU Reserve Bank Governor Lowe Speech (8:45am)
 AU Cons. Inflation Expectations Oct prev 3.1% (11am)
 AU Labour Force Sep (11:30am)
 Employment Sep exp -40k prev 111k
 Unemployment Rate Sep exp 7.2% prev 6.8%
 Participation Rate exp 64.7% prev 64.8%
 CH Producer Prices Sep y/y exp -1.8% prev -2.0% (12:30pm)
 CH Consumer Prices Sep y/y exp 1.9% prev 2.4% (12:30pm)
 UK BoE Liabilities & Credit Conditions Survey (7:30pm)
 US Empire Mfg Index Oct exp 14 prev 17 (11:30pm)
 US Initial Jobless Claims w/e Oct 10 exp 825k prev 840k (11:30pm)
 US Import Price Index Sep (11:30pm)
 US Export Price Index Sep (11:30pm)
 US Philadelphia Fed Index Oct exp 14.5 prev 15.0 (11:30pm)
 US Federal Reserve's Bostic Speech (12am)
 US Federal Reserve's Bullard Speech (1:10am)
 US Federal Reserve's Quarles Speech (2am)
 US Federal Reserve's Kaplan Speech (2am)
 US Federal Reserve's Barkin Speech (5am)

Times are AEST. All data forecasts are m/m or q/q and seasonally adjusted unless otherwise specified. Forecasts for Australian data are our forecasts and for other countries they are consensus forecasts.

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